

1 **Q. PLEASE DISCUSS THE MOST RECENT TEST RESULTS REGARDING THE**
2 **PRESENCE OR ABSENCE OF LEAD IN TEGA CAY'S DRINKING WATER.**

3 **A.** Exhibit PCF 4, Lead & Copper Results, contains a December 6, 2012 letter issued
4 by the South Carolina Department of Health and Environmental Control (DHEC) that
5 identifies the results of lead and copper testing conducted on samples collected in
6 October 2012 from 42 Tega Cay customers' homes. The letter identifies that Tega Cay
7 has not exceeded the action levels for either lead or copper for two consecutive six-month
8 monitoring periods, and consequently, is now in compliance with DHEC's lead and
9 copper rule. Additionally, 35 of 42 samples indicate no lead was detected at all including
10 the tap at 8040 Windjammer, which was one of the two premises that had a lead
11 concentration value greater than the action level in a previous sample set.
12

13 **Q. PLEASE PROVIDE THE PURPOSE OF TEGA CAY'S PROPOSED LEAK**
14 **MITIGATION PROGRAM AND THE REASON WHY IT WAS PROPOSED.**

15 **A.** The proposed Leak Mitigation Program offers a mechanism by which funds
16 collected under this program would be posted to a segregated account and then applied on
17 a case by case basis to customer accounts in order to reduce the balance due from
18 customers who experience a water leak on their property or otherwise incur an
19 unexpected high water bill. In the absence of such a program, there is little opportunity
20 for the customer to gain relief without adversely affecting the utility's financial health. In
21 the current circumstance, where there is no such program in place, requests for such relief
22 made to Tega Cay Water Service, if granted, would only exacerbate the utility's cost of
23 operating its system. But if a nominal amount of \$0.10 per month was collected from all

1 customers, perhaps with a cap placed on the amount contained in the account, customers
2 would be able to gain some relief from an unexpected one-time event by the sharing of
3 risk among the customer base. One approach to the implementation of this program might
4 include the following attributes:

- 5 • Funding of the Leak Mitigation Fund would be identified as a separate line item
6 on each water customer's monthly bill;
- 7 • Requests for relief from the fund would be limited to no more than once in any
8 five year period by a Tega Cay Water Service customer at a specific premises;
- 9 • Funds would only be applied to a customer's water bill and not to any sewer bill;
- 10 • The maximum amount of relief applied to a specific customer's bill would be the
11 lesser of: 1) the difference between the current water bill and the applicant's
12 annual average water bill, or 2) \$250.00;
- 13 • The fund balance must not exceed \$10,000.00 nor be less than \$250.00;
- 14 • In the event that the fund balance exceeds \$10,000.00, the utility would terminate
15 the collection of funds and would notify its customers by bill notice of the
16 cessation of such funds being collected;
- 17 • Fund activity would be reported on an annual basis in conjunction with the
18 utility's submittal of its annual report and in a format established by the
19 Commission.

20
21 **Q. DO YOU AGREE WITH MR. MORGAN'S TESTIMONY REGARDING TEGA**
22 **CAY'S RECORDING OF RETIRED ASSETS?**

1 **A.** No I do not. Exhibit PCF 5, Retirement Form, is a form used by Tega Cay staff to
2 document the retirement of its water and sewer assets. This form is filled out and
3 forwarded to the Accounting Department after assets are replaced and retired. It is
4 important to recognize that the vast majority of the assets that make up the water
5 distribution and wastewater collection systems in Tega Cay are comprised of pipe, valves
6 and appurtenances that were contributed by the developer, and thus not a part of rate
7 base. Those assets that are in rate base have significantly depreciated after many years of
8 service. Although I agree that it is important to document the replacement of assets for
9 operation and maintain purposes, it is not necessarily the case that failure to do so has an
10 impact on rate base. Tega Cay will continue to document the retirement of its assets in
11 the future

12
13 **Q. DO YOU AGREE WITH MS. SEALE’S ADJUSTMENT 9 TO GROSS PLANT IN**
14 **SERVICE AS SHOWN ON HER EXHIBIT CLS-4?**

15 **A.** No I do not. Ms. Seale proposes an adjustment of \$38,535 to maintenance and
16 repair expense to reflect what she was told were expenditures booked to plant that should
17 have been expensed. It is important to distinguish between expenditures that are
18 capitalized and those that are expensed. If the utility replaces an existing capital asset,
19 installs or constructs a new asset, or extends the service life of an existing asset, then the
20 expenditures associated with those actions are capitalized by booking them to plant. In
21 comparison, expenditures associated with the day to day operation of the utility,
22 reflecting the routine or recurring purchase of parts, supplies, and services, are considered

1 operating expenses. Therefore, effect of the ORS's proposed adjustment would be to
2 exclude these expenditures from rate base.

3 Ms. Seale indicates the amount of the adjustment was provided by ORS witness
4 Willie Morgan. However, nowhere in Mr. Morgan's testimony does he identify the need
5 for such an adjustment or provide any supporting documentation for it. In the absence of
6 any supporting documentation or specific description for the proposed adjustment, the
7 adjustment should be disallowed.

8
9 **Q. DO YOU AGREE WITH MS. SEALE'S ADJUSTMENT 33 REGARDING ITEMS**
10 **THAT SHOULD HAVE BEEN EXPENSED, NOT CAPITALIZED?**

11 **A.** No I do not. The basis for Ms. Seale's adjustment is not clear. An adjustment is
12 shown on Audit Exhibit CLS-4 (X).33 in the amount of \$\$455,860. In Ms. Seale's Work
13 paper F, Gross Plant in Service Adjustments (Exhibit PCF 7 - Seale Workpaper F – Gross
14 Plant in Service Adjustment), an adjustment of \$309,575 is made to the Plant in Service
15 account without any supporting documentation.

16 Ms. Seale's adjustment appears to be based on information contained in the
17 Continuing Property Records (CPR's) file provided to ORS for the period of January 1,
18 2010 through November 1, 2012 (Exhibit PCF 6 CPR Data 2010-2012). In the absence of
19 documentation, I assume that Ms. Seale's adjustment reflects her analysis of the CPR's
20 submitted to ORS in response to an ORS audit request. The ORS requested that for every
21 invoice the Utility describe each asset listed and the benefit that accrued to the customers
22 when making each capital investment. The invoices listed in the CPR's reflect the
23 payment of purchase orders generated by Mike Davis, Area Manager of the Tega Cay

1 operations staff, Steve Whitt (Lead Operator in 2010) or Kenny Knopf, Operator, when
2 obtaining the services of contractors. All three of these employees have been well trained
3 in the use of the Utility's accounting system with regard to generating purchase orders.
4 Specifically, all three individuals have been trained to distinguish between those items or
5 services that are operational expenses and those that are capitalized. The CPR's, with a
6 few exceptions, reflect a list of capital expenditures that occurred between January 1,
7 2010 and November 1, 2012.

8 The descriptions of the asset and the benefit that accrues to the customer by
9 making the expenditure that is noted on the CPR were not meant to be used to
10 differentiate between capitalized expenditures and operating expenses; the CPR file
11 already distinguishes between the two based on the object account number selected by
12 the originator of the purchase order, that is, one of the three employees listed above.

13 It may be helpful to provide an example of a typical field activity that involves
14 multiple contractors and multiple purchase orders. Assume that a customer contacts the
15 Utility after normal business hours to inform the Utility that the sewer service at the
16 customer's premises has backed up. The Tega Cay employee who responds to the call
17 will attempt to locate and cure the cause of the blockage relative to the point of
18 connection of the house plumbing to the utility's system. If the blockage cannot be
19 determined, the employee typically contacts Randy Eudy initially to assist in one or more
20 of the following activities: locating or installing a cleanout near the property line;
21 clearing the blockage using high pressure hose so that wastewater will flow through the
22 pipe; performing a video inspection of the pipe; rodding and/or excavation of the pipe. If
23 the line must be dug up, the contractor or utility employee must request that all

1 underground utilities be located prior to any excavation in order to provide a temporary
2 resolution. In the event that additional resources are needed beyond what Randy Eudy is
3 equipped for, Aqua Services, Inc., a third party contractor, typically is called in so that
4 adequate equipment, manpower, and materials are on site to remove or replace pipe as
5 needed in order to reestablish service. Once the service line is returned to operation and
6 the work area has been backfilled, Lester Thomas Paving, Inc., another third party
7 contractor, is usually called in to complete restoration work. In other words, multiple
8 contractors may be involved in the process of repairing, replacing or installing a
9 component of the collection system at one location, all of which constitute capital
10 invested in a combined effort to replace an asset that is necessary to provide service to a
11 customer. Purchase orders associated with this incident would be generated in the
12 accounting system with a capital expenditure code to insure that these expenditures are
13 booked to the appropriate plant in service account.

14 Conversely, in the event that no asset or component of the collection system is
15 replaced or installed, purchase orders associated with the incident would be booked to
16 operating expense by the use of an object code number that identifies the activity as an
17 expense. In the case of restoration work that consists of backfilling with dirt, tamping,
18 raking, and placement of straw, seed or sod, the expenditure would be booked as an
19 operating expense, not to a plant account.

20 In summary, the accounting adjustments made by Ms. Seale should not be
21 allowed as they incorrectly shift capital expenditures associated with the replacement or
22 installation of utility assets to operating expense resulting in an increase in Tega Cay's

1 revenue requirement. This adjustment, in effect, will increase the amount of current
2 expense to the detriment of the rate payers.

3
4 **Q. DO YOU AGREE WITH THE ORS's EXCLUSION OF CERTAIN COSTS**
5 **ASSOCIATED WITH TCWS'S CAPITAL PROJECT?**

6 A. No. As discussed in Ms. Markwell's testimony, without explanation, the ORS
7 proposes to esclude \$47,261 related to engineering of TCWS's capital project and an
8 invoice from TNT Construction for \$27,725 for pipe replacement services. The exclusion
9 of \$47,261 in engineering costs_ fails to recognize that engineering services were an
10 integral component of TCWS's corrective action plan which was approved by DHEC.
11 ORS has acknowledged that expenditures to make the improvements required in the
12 Corrective Action plan were appropriate, and associated engineering costs should be
13 allowed as well. TNT was hired by TCWS to replace over 300 linear feet of 6" gravity
14 sewer pipe that was found not to be repairable when that section of pipe was video
15 inspected. TNT's services were clearly necessary, prudent, and appropriate for the
16 project, and the invoice from TNT Construction for excavation and replacement of the
17 system pipes should be allowed.

18
19 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

20 A. Yes, it does.